



COUNTY OF LOS ANGELES

FIRE DEPARTMENT

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September 29, 2010

TO: EACH SUPERVISOR
FROM: P. MICHAEL FREEMAN

FINANCIAL PLAN – UPDATE #4

Attached is Update #4 to the District's Financial Plan. This plan is based on a multi-year financial forecast (FY 2010-11 through FY 2013-14) and provides the financial needs and status changes as they occur in the District.

In summary, the District's current financial status is stable and reflects a modest improvement from our last update. However, projections indicate that our cost containment efforts, including those implemented this fiscal year, and the use of one-time funds will not be sufficient, over time, to counteract the loss in property tax revenue. Without additional, on-going revenue to stabilize District funding, severe emergency service reductions may be required in FY 2013-14. As in the past, Update #4 outlines the required actions to meet our financial objectives for the next two fiscal years. Other means of generating cost savings and revenue enhancements will be pursued for future years.

We will provide updates to the Financial Plan if significant changes occur. If you have any questions, please call me at (323) 881-6180 or email me at pfreeman@fire.lacounty.gov.

PMF:hj

Attachment

c: William T Fujioka
Jackie White
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WESTLAKE VILLAGE
WHITTIER

CONSOLIDATED FIRE PROTECTION DISTRICT OF LOS ANGELES COUNTY



FINANCIAL PLAN

Update # 4
September 29, 2010

Introduction

The County of Los Angeles Fire Department is a dependent fire district under State law and operates under the direction of the Los Angeles County Board of Supervisors. Also known as the Consolidated Fire Protection District (District), it receives 62% of its annual funding from property tax revenues from its jurisdiction and 8% from a Special Tax voted in June 3, 1997.

The current economic downturn has negatively impacted property tax revenues available to the District and warranted the creation of a multi-year Financial Plan (Plan). The first edition of the plan was submitted to the Board of Supervisors on July 15, 2009, and has been updated two times to reflect changes in financial circumstances.

This update (#4), like previous ones, provides updated information, financial changes and adjustments. It also outlines short- and long-term plans to maintain emergency service levels and to address a persistent imbalance between revenue available and on-going costs.

Background

Dependable and effective public safety services like fire prevention, firefighting, and paramedic services require stable sources of funding that increase as costs of service rise. Property tax usually provides such a funding source. However, even the inherent stability of property tax can be affected in times of prolonged recessions, such as our current circumstance. So now, for the second time in two decades, significant downturns in property tax threaten the level of emergency service provided by the District.

In 1992, the Fire Benefit Assessment, with its flexibility for annual adjustment by the Board of Supervisors, preserved emergency service levels despite a decline in property tax revenues and the shift of District property tax for the State's use. In 1997, the current voter-approved Special Tax was created to replace the then obsolete Benefit Assessment. The Special Tax, like the previous Benefit Assessment, contains flexibility for the annual levy to be raised or lowered based on actual need.

The flexibility for setting the annual levy amounts has historically enabled the Special Tax to act as an efficient buffer or "shock absorber," to fill in for property tax downturns when necessary. This shock absorber characteristic has enabled the Board of Supervisors to increase the levy amount (up to the maximum voter-approved cap), when property tax declined, thereby maintaining emergency service levels, or to lower the annual levy amount when property tax revenue increased.

For nearly fourteen years, the Special Tax annual levy amount has been below the voter-approved annual cap. Even now, in FY 2010-11, the levy is still below the cap (See Appendix A).

Fire District Efficiencies

Historically, the Los Angeles County Fire Department has done more with less. Every uniformed firefighter and lifeguard is cross-trained as an Emergency Medical Technician. Firefighter Paramedics routinely fight fire and provide medical service all in the course of a day's work.

Special services, such as urban search and rescue, hazardous materials response, helicopter hoist rescue, swift water rescue, and many fire prevention inspections are performed by cross-trained firefighters. The system of cross-training and dual functions makes the most efficient use of personnel, which is more economical for the taxpayer.

Instead of staffing every engine company with four firefighting personnel each day, the District operates 65% of its engine companies with a staffing level of three, relying upon the response of the paramedic squads to compensate for the absence of the fourth firefighter. For nearly three decades, battalion chiefs have responded to fire and emergency calls without the able assistance of an adjutant that was once commonplace in the fire service.

Emergency service is timely, wide-ranging, and efficient; it is at minimum staffing levels and either needs supplemental funding or the public will have to endure the impact of cuts necessary to remain within budgetary funding limits.

Current Financial Situation

Several positive developments have modestly improved the District's FY 2010-11 budget outlook despite the loss of property tax revenue, but projections indicate that during FY 2013-14, severe emergency service reductions may be required, unless more on-going revenue becomes available.

Curtailments and expenditure freezes of \$22.6 million enacted in FY 2008-09 continue and an additional \$20 million in cost containment measures are being implemented in FY 2010-11. Also, the securitization of the \$44.8 million Prop 1A loan to the State generated a positive ending fund balance for FY 2009-10 that are utilized in FY 2010-11. This use of fund balance postpones planned expenditures of one-time funds designated for capital projects, infrastructure growth and budgetary fluctuations.

The immediate effect of these positive developments is two-fold. First, the FY 2010-11 annual levy of the Special Tax remain unchanged from the FY 2009-10 level, which means property owners face no increase this year, as projected earlier.

Secondly, the combination of the Prop 1A securitization and implemented cost curtailments essentially postpones the "financial crisis year" for the District from FY 2012-13 to FY 2013-14. This means that severe emergency service level reductions or a significant increase in other revenue will not be required until FY 2013-14.

While the current financial outlook for the next three years appears stable, there is a financial imbalance evident between revenue and costs. Continued cost curtailments, hiring freezes and the use of one-time funds will not be sufficient, over time, to counteract the projected \$117 million loss of property tax through FY 2013-14 (**See Appendix B**).

Projections indicate that by FY 2013-14, the District will face an unfunded deficit of \$62 million. Without additional, ongoing revenue by that time, such a deficit means that the closing of 39 local fire engine companies will be required to stabilize District funding. This would increase response times to all emergency calls, reduce the District's ability to quickly extinguish structure fires, and greatly limit a sufficient response for wildland fires. Clearly, there would be a widespread reduction in emergency service levels.

Corrective Actions

To address the short-term financial downturn of property tax, the District will continue the freeze of non-emergency positions, firm restrictions on non-emergency overtime, cuts in discretionary expenditures, and other efficiencies (**See Appendix C**). To fill the remaining funding gap between operational costs and available revenue, the District will, as necessary, use one-time funds designated for other purposes to maintain emergency service levels.

While these combined actions maintain critical emergency services, they are stop-gap measures. Further, such actions deplete funds needed for other essential purposes and depend on non-emergency staffing freezes which will not be sustainable for the long term.

Over the course of several years, the District's property tax revenue will increase and the gap between operational financial needs and available revenue will narrow. Still, the timing of such property tax increases is far too slow and unpredictable to perform as a stable emergency service funding source. Therefore, a long-term solution for the District's funding problem is required.

The most effective solution for stable emergency service funding seems to be a voter-approved increase in the Special Tax Cap. Such a voter-approved supplemental cap for the current Special Tax would provide the Board of Supervisors more flexibility in mitigating fluctuations in property tax revenues and keeping emergency service levels constant (**See Appendix D**).

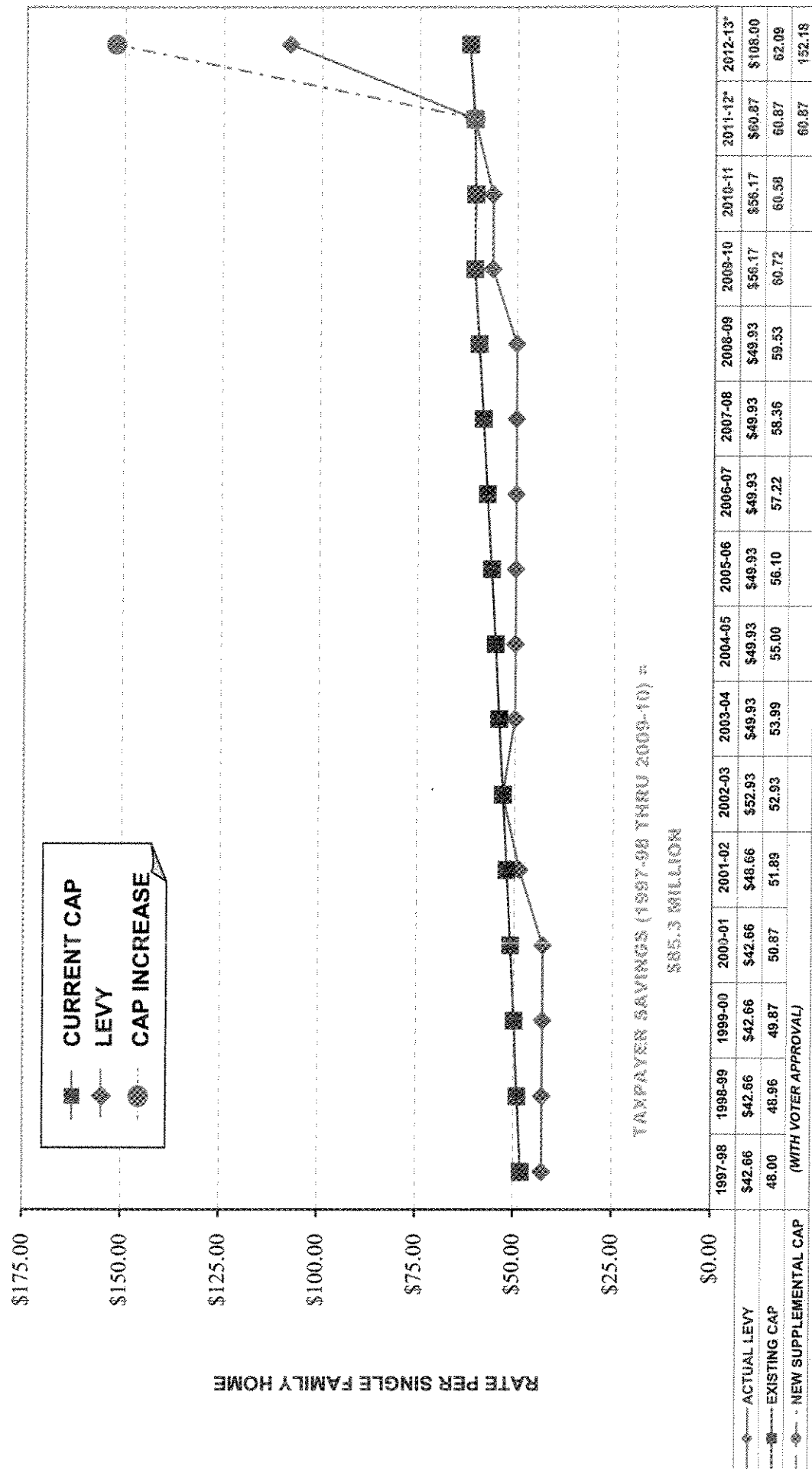
Future Actions – Fire District

- Continue cost containment actions, seek innovative economies, preserve emergency service levels, and use designated one-time funds as necessary.
- Plan for a November 2011 ballot measure for the Special Tax Supplemental Cap to generate needed funds starting in FY 2012-13.

- Explain the District's financial situation to key stakeholders and the public in general beginning in October 2010.
- Continue developing the Special Tax supplemental cap ballot measure.
- Continue to monitor financial changes and provide Financial Plan updates as appropriate.

Appendix A

Los Angeles County Fire Department History of Special Tax Levy Single Family Home Rates

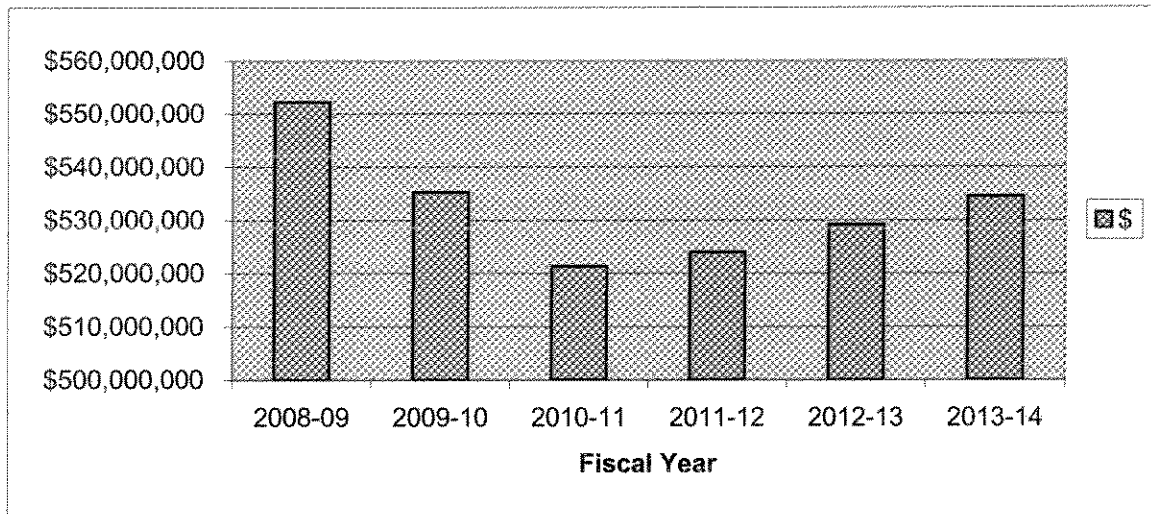


*For 2011-12 & 2012-13, the "Actual Levy" is based upon proposed amounts, not actuals. For 2011-12, the "Existing Cap" assumes a .477% CPI increase and for 2012-13, a 2% increase.

Appendix B

Los Angeles County Fire Department Property Tax Projections

Fiscal Year	\$	Change From Prior Year	Percentage Change From Prior Year	Change From 2008-09 Level
2008-09	\$552,090,000			
2009-10	\$535,150,000	(\$16,940,000)	-3.07%	(\$16,940,000)
2010-11	\$521,259,000	(\$13,891,000)	-2.60%	(\$30,831,000)
2011-12	\$523,866,000	\$2,607,000	0.50%	(\$28,224,000)
2012-13	\$529,104,000	\$5,238,000	1.00%	(\$22,986,000)
2013-14	\$534,395,000	\$5,291,000	1.00%	<u>(\$17,695,000)</u>
Accumulated Total				(\$116,676,000)



Appendix C

Los Angeles County Fire Department Expenditure Freezes and Curtailments

The Fire District implemented and continues several freezes and cost curtailments in 2008-09 totaling \$22.6 million. These savings are included in the District's fiscal forecast through 2013-14.

- Continuing the freeze on vacant non-emergency positions
- Continuing the freeze on all non-essential Services and Supplies
- Continuing the reduction of non-essential travel/training
- Continuing the deferral of the 4-person staffing
- Reassigning of staff battalion chiefs to activate needed field battalion
- Reducing overtime related to special assignments
- Reducing overtime related to recruit training
- Downsizing of Department bureaus from seven to six

Through 2013-14, these curtailments, along with an additional \$20 million in cost containment measures implemented in FY 2010-11, will provide a cumulative savings of approximately \$216 million.

Other means of generating cost savings will be continuously pursued and implemented while still meeting our financial objectives.

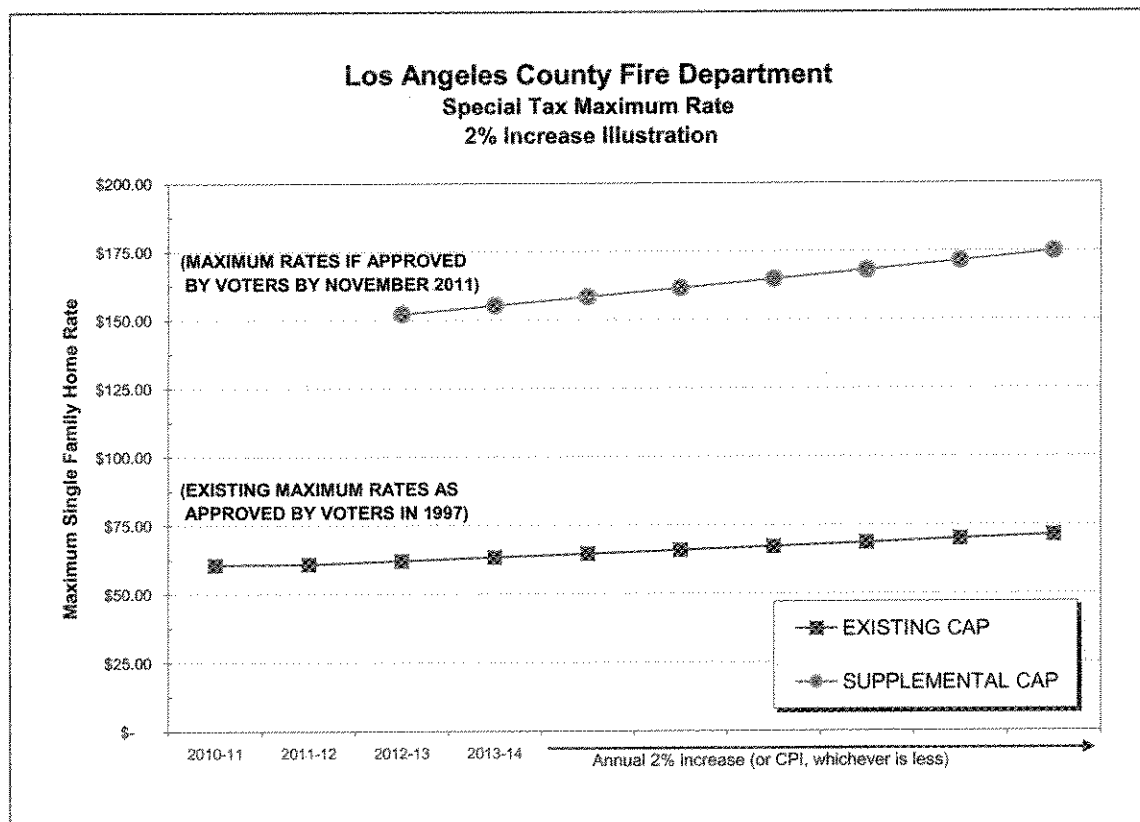
Appendix D

Los Angeles County Fire Department Special Tax Supplemental Cap

Although the Special Tax, in place since the voters approved it in 1997, has only been levied at its cap once, it is clear that this cap is too low. Given the magnitude of the District's funding shortfall attributable to the loss of more than \$117 million in property tax, a Supplemental Cap is needed.

District residents should be provided the opportunity to increase ongoing revenue to maintain emergency services before any cuts are made. To do this, a Supplemental Cap to the Special Tax will have to be placed on the ballot and passed by a super-majority of the voters. If passed, it would give the Board of Supervisors the authority and flexibility to increase the annual levy necessary to maintain emergency services without drastic cuts that would otherwise be necessary. The built-in flexibility would also allow reductions in the annual levy when property tax revenues increase.

At this time it appears that a Supplemental Cap equal to two and one-half times the current cap would be necessary to ensure enough capability to handle the current crisis, but provide sufficient latitude for the future (**see Chart below**).



This supplemental cap increase would be placed on the ballot for voter consideration, but would in no way affect or change the Special Tax as approved on the ballot in 1997 if it is unsuccessful. Based upon 2009-10 rates, the Supplemental Cap would increase the maximum cap on a single-family home from \$62 to \$152. However, current projections show that the levy on a single-family home would only need to be \$108, an increase of \$52 from the current levy (figures based on current projections of costs and revenue available for FY 2012-13). Proportional increases would apply to all other property use types as well.

If the ballot measure for the Supplemental Cap is unsuccessful, the funding shortfall will directly impact emergency service beginning in FY 2012-13.